accenture

Debt Collection

Process Improvement Opportunities

August 2001

64.1.1-Debt Collections Management Assessment

This document represents the assumptions behind each of the process improvement opportunities. The contents have is largely uncoordinated with SFA and represents an initial pass at potential areas for cost savings, increased customer service and employee satisfaction.

Analysis Overview

Objective

This two-week analysis is meant to provide an understanding of the current Debt Collections process area as well as identify a number of improvement opportunities which provide the greatest potential cost impact. These improvement opportunities should be used to set priorities for future, more detailed analysis which can result in implementation of expected savings.

In Scope For This Analysis

- Creation of Current State (As-Is) process maps showing a defaulted loan (or program overpayment) from arrival until satisfied
- Creation of Future State (To-Be) process maps showing process improvement opportunities
- Collection of readily available data
- Estimations of annual savings for each savings opportunity (where possible)

Out of Scope For This Analysis

- Extensive data collection efforts (i.e., time-and-motion studies, statistical sampling, difficult research, etc.)
- Dept of Justice Litigation process
- PCA Collections process
- Accounting process
- NPC, SLPC and VDC processes

Fifteen improvement opportunities have been grouped into two themes:

- Reduced Operating Costs
- Increased Collections Effectiveness

Due to the integrated nature of the analysis, it is expected that overlaps in savings estimates must be de-conflicted.

The contents has been reviewed but the details require significant additional verification and coordination with SFA. They represent an initial pass at potential areas for cost savings, increased customer service and employee satisfaction.

Accuracy of Estimates

- Rapid review performed based on available data and subjective approximations from Subject Matter Experts
- Savings are indicative only and should be used for prioritizing goals
- Additional work required to confirm actual savings as additional effort is performed
- Numeric data was sometimes rounded off to simplify calculations

Reduce Operating Costs
1.1 Reduce Consolidation Commissions

Description
Consolidation requires significantly less effort compared to loan rehab and does not necessarily develop good borrower payment patterns (e.g., a consolidated loan could default again). Consolidated loans are sold to Direct Loans and the PCA receives 10% or 12% commission for Direct Loans or FFEL, respectively (commission based on total loan balance, principle and interest).

For future contracts, the PCA commission for consolidating loans should be reduced, or made a flat fee, to cover PCA operational costs plus a small incentive amount to continue to induce loan consolidations. Research should be done to determine what commission rate to set and where contracts should be capped.

Cost Driver Impacts
- Reduced treasury costs to federal student loan programs
- Reduced collection costs by pushing more loans from consolidation to rehab

Difficulty of Implementation - - LOW
- Reduced Treasury costs to federal student loan programs

Treasury Savings: $5,000,000/year

Assumptions / Calculations
- Savings = (loan loan amount consolidated per year) * (reduced commission rate)
- New PCA commission still based on total amount for loan consolidations (principle and interest)
- e.g., Savings = ($1,000,000) * (0.12 – 0.10) = $100,000
- Loan consolidation amounts for FY'00 were: $31,724,416 for FFEL loans and $237,222,747 for Direct Loans. Consolidation commissions based on a percentage of these amounts (currently 12% for FFEL and 10% for Direct Loans).

	FFEL Loan Commissions	Direct Loan Commissions	Scenario Savings
Baseline: Current Rate (FFEL=12%, DL=10%)	$3,806,929	$23,722,274	$0
Scenario 1: Reduce rate by 2% (FFEL=10%, DL=8%)	$3,172,441	$18,977,819	$5,378,943
Scenario 2: Reduce rate by 4% (FFEL=8%, DL=6%)	$2,537,953	$14,233,364	$10,757,886
Scenario 3: Reduce rate by 6% (FFEL=6%, DL=4%)	$1,903,464	$9,488,909	$16,136,829

Reduce Operating Costs
1.2 Proactively Reduce Volume of Hearings *

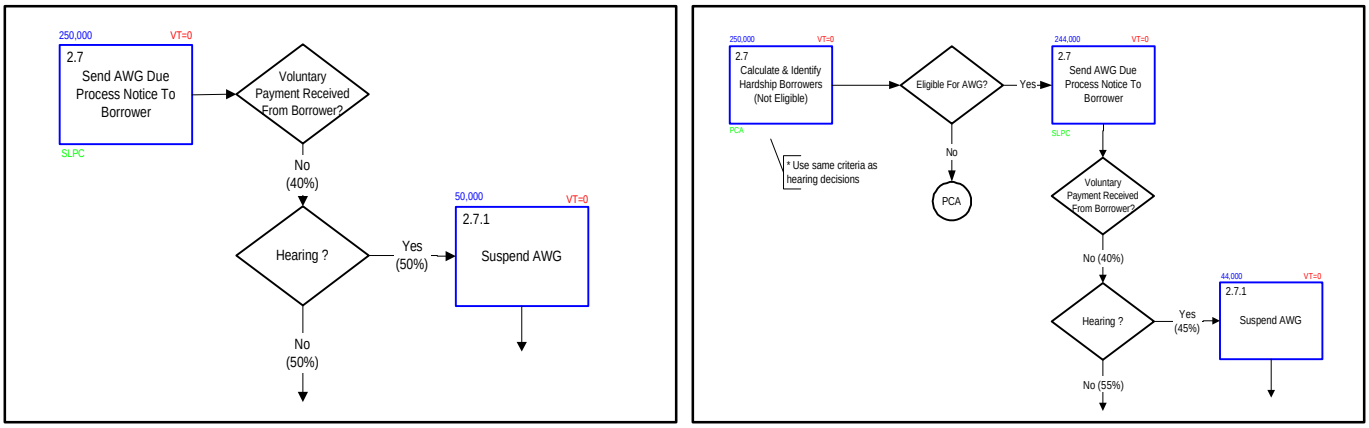
Description
Currently, borrowers who are notified that they are targeted for AWG, TOP, and FDP may declare hardship and request a hearing/review. Contractors and Loan Analysts then perform a review to determine the validity of the appeal (in FY'00, 70% of appeals were not valid and the programs went forward for those borrowers). More caution should be given to targeting borrowers for AWG, TOP and FDP because they may legitimately appeal. Reduce the volume of borrowers that may appeal by analyzing borrowers status and identifying the hardship cases before targeting them for debt collection techniques (i.e., AWG, TOP, FDP). Use the same analysis techniques in this prescreening that would be done during the normal hearing activity (e.g., use Joe Butler's hardship calculator which factors state, county and local cost of living parameters to determine hardship). This proactively prevents a certain portion of borrowers from going through the appeal/review process.

Cost Driver Impacts
- Reduced operational costs due to less review by regions (primarily contractors)

Difficulty of Implementation - - LOW
- Requires more effort by PCA, may need to share the savings
- Requires monitoring and communication of criteria for hardships

Operational Savings: $140,000/year

Process Map



AS IS TO BE

* New recommendation developed during additional week of analysis August 6-10

Reduce Operating Costs
1.2 Proactively Reduce Volume of Hearings (cont.)

Assumptions / Calculations

- Increased productivity (savings) = (reduced volume of hearings) * (unit cost for each hearing)
- Total volume of hearings is approximately 20,000 (based on current contract documentation)
- Approximately 25% of all hearings are valid and result in hardships which stop collection program
- Assume half can be identified before setting up on collections programs
- Reduced volume = 20,000 * 0.25 * 0.5 = 2,500
- Unit cost for each hearing/review is unit cost for PIC plus unit cost for hearing staff reviewing results
- Unit costs for PIC reviews is approximately $30
- Unit costs for hearing staff review is $25 (see below for activity unit cost calculations)
- Number of written requests are much larger than the number of oral and in-person requests for FDP
- For TOP, assume savings only occurs for SFA paper responses and discharge requests; assume Telephone and In Person reviews do not change volume or have negligible savings
- Increased productivity (savings) = 2,500 * $55 = $137,500

Activity Unit Cost Calculations

- Assume annual loaded cost is $100,000 for Loan Analysts and Hearing Staff
- Assume annual loaded costs is $60,000 for PIC, SLPC and PCA
- Assume 50 weeks per year, 5 days per week, and 8 hours per day
- Thus, loaded hourly cost is $50 for Loan Analysts and Hearing Staff, $30 for PIC, SLPC, PCA
- Activity unit cost is loaded hourly rate times the value added time for each activity (e.g., an activity which requires one Loan Analyst review for 15 minutes would be; unit cost = $50.00 * 2 = $300.00)

Reduce Operating Costs
1.3 Eliminate Redundant Reviews *

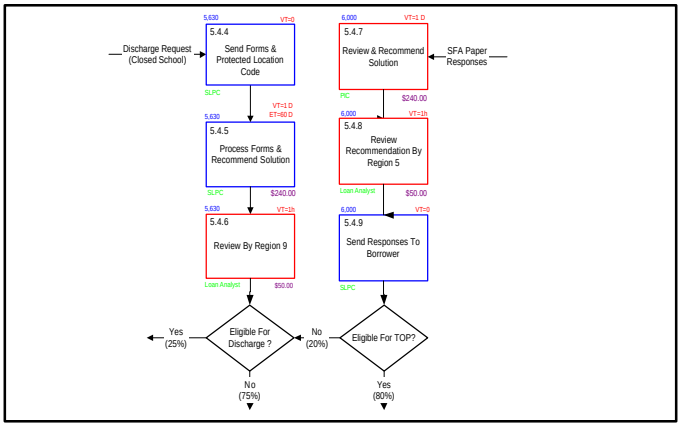
Description
Currently, all hearings are performed first by contractors (e.g., PIC, GA, etc.), then reviewed again by SFA (100% of time). This additional review usually finds few problems (e.g., GA reviews are upheld about 99% of time). Allow contractors to make the final resolution for hearings and reviews. Notify borrowers that their resolution is backed by SFA. Eliminate standard of performing 100% reviews by loan analysts. Instead, randomly sample, or sample based on review criteria, to ensure compliance and implement a vehicle that continuously improves quality of contractor reviews (e.g., training, communication, feedback to regions, etc.). Ensure that any criteria required by region is applied by the contractor.

Cost Driver Impacts
- Reduced operational costs due to less review by regions

Difficulty of Implementation - - LOW
- Implement random sampling techniques for reviews
- Provide quality improvement mechanism to contractors performing work

Operational Savings: $ 500,000/year

Process Map



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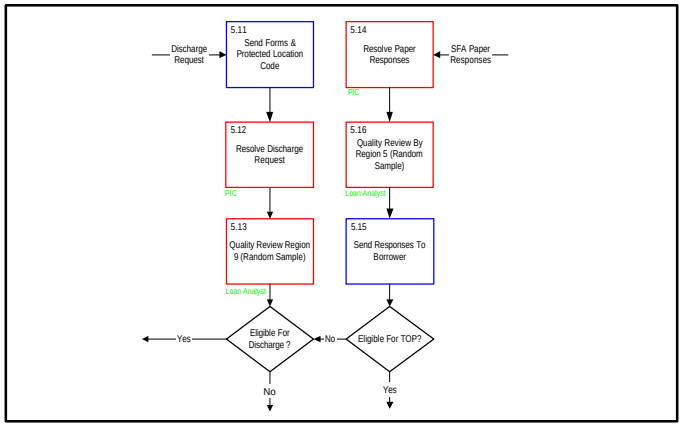

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Assumptions / Calculations
- Increased productivity (savings) = reduced volume of hearings * unit cost of region reviewing hearing
- Volume of hearings is approximately 20,000 (based on current contract documentation)
- Unit costs for performing all hearings (FDP, TOP discharge, TOP paper, AWG) is $25.
- 10% random sampling of total volume of work for review (note that the greater the error rate found, the greater the random sampling percentage should be; conversely if the error rate decreases, the volume of sampling should decrease too)
- Reduced volume of hearings Volume of GA held accounts which require a review by Region IX is negligible (approximately 50 per year)

* New recommendation developed during additional week of analysis August 6-10

Reduce Operating Costs
1.4 Centralize and Automate Data Exchange

Description
Trading partner data could be placed into a central mailbox (e.g., partner.net and bTrade) whereby the trading partners can access via the internet. This will automate and replace all existing manual tape processes. Both federal and non federal trading partners could benefit from this data exchange solution. Also, data accepted from trading partners could be validated before accepting into the system. This will reduce or eliminate the need for manual editing of accts.

Additionally, scanned images of promissory notes should be accepted. This will reduce the number of existing notes which are manually scanned into DMCS.

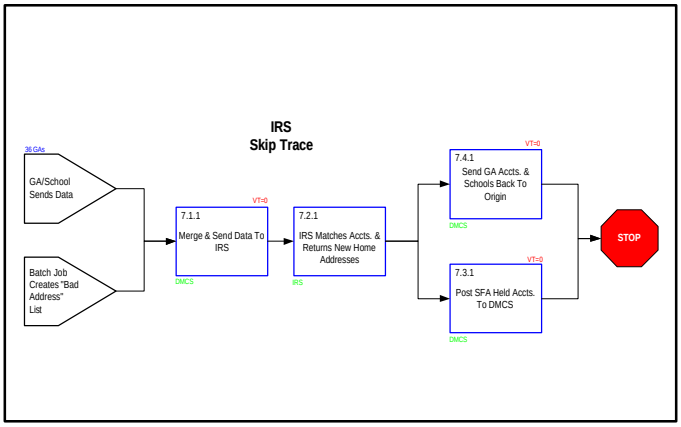
New technology implementation will allow GUI (Graphical User Interface) information to be available concurrently and reduce non-value added time by making processes event-driven. Currently, data contention issues may be time consuming and inefficient. Overall process tends to be fragmented due to factors such as database locking

Cost Driver Impacts
- Reduced operational costs at VDC for reduced tape activities
- Reduced contractor FTEs at VDC data library
- Reduced errors from manual human activities
- Reduced manual mailing
- Increased productivity
- Increased collections due to improved process cycle-time
- Increased employee satisfaction

Difficulty of Implementation - - MEDIUM
- Requires technology implementation
- Consistent with current reengineering recommendations in technology replacement
- Requires trading partners to be capable of internet access, particularly Gas

Operational Savings: $160,000/year

Process Map



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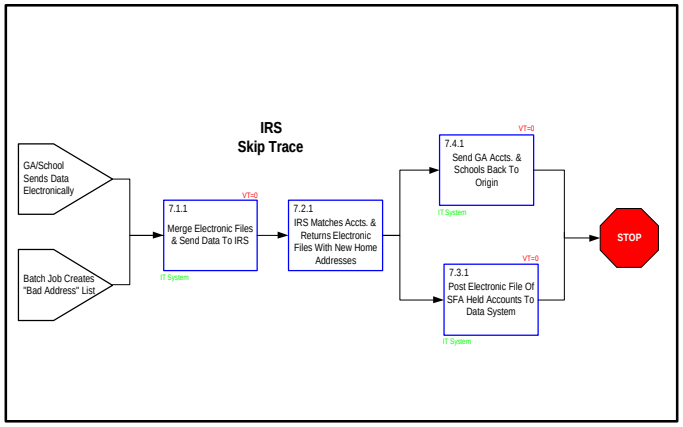

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Reduce Operating Costs
1.4 Centralize and Automate Data Exchange (continued)

Assumptions / Calculations

- Total savings = (tape shipping costs) + (tape mount costs) + (tape storage costs)
- Total savings = $120,000 + $7,800 + $33,600 = $161,400
- Productivity enhancements not calculated

Tape Shipping Costs

- Approximately 650 tapes are processed per month (confirmed by tape library)
- Shipping cost for tapes is approximately $120,000 per year

Tape Mount Costs

- Tape mount costs = (tapes processed per month) * (unit cost per mount) * 12 months
- Tape mount costs = 650 * $1 * 12 = $7,800

Tape Storage Costs

- 40,000 cartridge tapes are used to store historical data
- UDC unit cost per year for storage is $0.84
- Storage cost per year = 40,000 * $0.84 = $33,600

Reduce Operating Costs
1.5 Recover Data Matching Costs

Description
SFA should attempt to recover its operating costs thru collection of fees or renegotiated agreements for data matching services (i.e., Guarantee Agencies, borrowers, etc.). For example:

- SFA provides defaulted loan information to HUD (CAVERS database). Additionally, current HUD agreement requires SFA to pay HUD for this service because users of the database are charged for their participation. Never-the-less, it is still in SFA's best interest to provide educational loan information to HUD because those who buy a house through HUD must first satisfy their defaulted student loan. However, since approximately 80% of this database consists of SFA information, discussions are currently under way to reach a more equitable agreement with HUD.
- Guarantee Agencies (GA) currently utilize SFA data matching programs via tape activities at no cost. In the future, GAs that begin transferring their data electronically could continue to receive free data matching services. However, those GAs that continue to require tape activities may be required pay a fee for their fair portion of SFA operational costs. This will encourage GAs to use more efficient means of transferring their data.
- IRS data matching occurs, however, the IRS is paid directly from Department of Education budget, not from SFA's budget

Cost Driver Impacts
- Reduced cost of data matching agreements
- Reduced operational costs in data matching for borrowers and GA

Difficulty of Implementation - - MEDIUM
- Requires SFA management approval
- Require agreement negotiations with other federal agencies
- Guarantee Agencies most difficult to change
- Minimal system changes

Operational Savings: $120,000/year

Reduce Operating Costs
1.5 Recover Data Matching Costs (continued)

Assumptions / Calculations

- Skip tracing cost for borrowers = (Number of bad Addresses) * (success rate) * (cost per skip trace)
- Number of bad addresses = 628,000 (source: DMCS ad-hoc query)
- Criteria for bad addresses is: undeliverable mail, not in repayment, account not resolved, account greater than $25.
- Success rate of locating new borrowers (previously not found) = 33% (Accurint guarantees 1 in 3, but test results have yielded 2 in 3 borrowers).
- Cost per skip trace = $0.25 per valid address returned (Accurint)
- Skip tracing cost for borrowers = 628,000 * 0.33 * $0.25 = $51,810 → $50,000
- Cost for NDNH data matching is approximately $800,000 per year
- (need to get operational costs for performing GA related tasks e.g., 36 tapes one month, someone loads tapes, call if problems, resend activities, etc.)
- NDNH cost is currently being negotiated and finalized
- IRS skip traces are conducted on monthly basis, currently pay $120,000 per year to IRS (source: Cynthia Mills)
- Cost is paid to IRS per address from Department of Education budget

Agency	Total Data Matching Cost	Applicable Savings
NDNH	$800,000	N/A
HUD	$140,000	N/A
IRS	$120,000	$120,000
Total Savings		**$120,000**

Reduce Operating Costs
1.6 Reduce Letters Sent To Borrowers

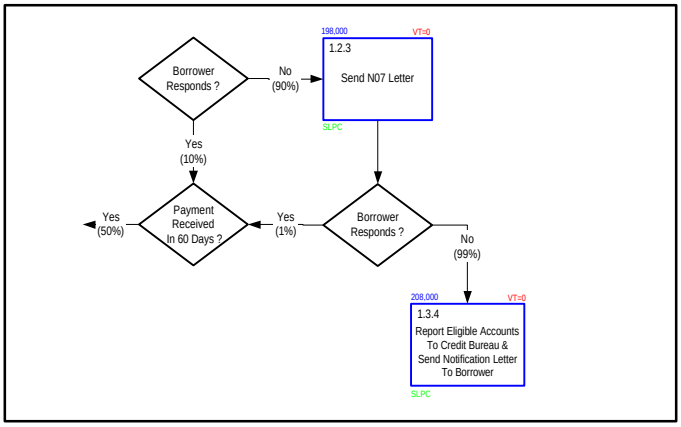
Description
Currently two separate due-process notices are sent to the borrower. These letter grants the borrower 65 days to respond. According to new federal regulations, SFA is only required to send one due-process notice. The elimination of the second letter (N07) will reduce operational costs and enable earlier assignment and action by PCA.

Cost Driver Impacts
- Reduced Operational Cost
- Reduced cycle times

Difficulty of Implementation - - MEDIUM
- Current regulations require only one letter
- Difficult to implement in DMCS due to hard-coded second letter programs
- Implement as part of system replacement

Operational Savings: $80,000/year

Process Map



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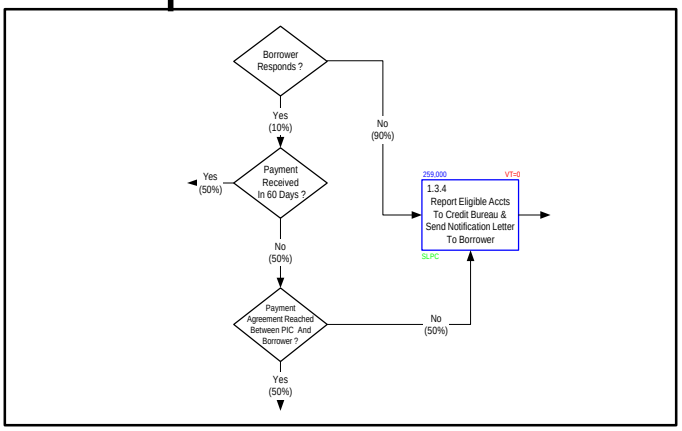

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Assumptions / Calculations
- Total savings = (unit cost for fulfillment + unit costs for envelopes + unit costs for postage) * (volume of N07 letters)
- **Unit costs for fulfillment = (cost for letter subsystem) / (number of letters sent)**
- $193,000 per year for letter subsystem (Raytheon Invoice)
- Total number of letters sent is 1,400,000
- Unit cost for fulfillment = $193,000 / 1,400,000 = $0.1379
- Assume one letter per envelope (eServicing cost structure)
- Unit cost for envelopes is $0.025 per letter
- Unit cost for postage is $0.27 per letter
- Total defaulted accounts entered DMCS database is 428,000 (including GSL, FISL, NDSL, Direct, and Pell) (from DCS Systems)
- Assume 75% of these borrowers receive the second notice (N07)
- Total volume of N07 letters is 428,000 * 0.75 = 321,000
- Total savings = ($0.1379 + $0.025 + $0.27) * 321,000 = $0.4329 * 321,000 = $138,961
- Borrower found before the first letter sent (not sending additional letter because of bad addresses)
- Four letters per defaulted account (initial due-process notice, N07, credit bureau notice, transfer to PCA)

Reduce Operating Costs
1.7 Reduce Paper-Based Reporting

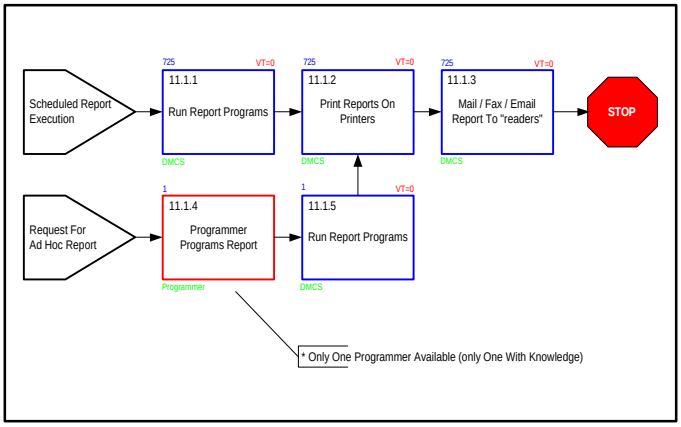
Description
Change the way users obtain information by publishing reports for all regions electronically. According to the DMCS Replacement Business Case, information retrieval is primarily conducted through paper reports. At present, over 725 paper reports are produced on regional printers, and then the reports are either mailed or hand delivered to their readers. Approximately 200 reports are in regular use by an estimated audience of 40 persons. If implementation of new IT system occurs, project should include review and elimination of all unnecessary reports in addition to providing online viewing capabilities.

Cost Driver Impacts
- Reduced contract costs
- Reduced operating costs from paper
- Increased employee satisfaction from report convenience

Difficulty of Implementation - - MEDIUM
- Change agreement with contractor for producing reports
- Systems change to produce reports online (e.g., Infopac, etc.)

Operational Savings: TBD

Process Map



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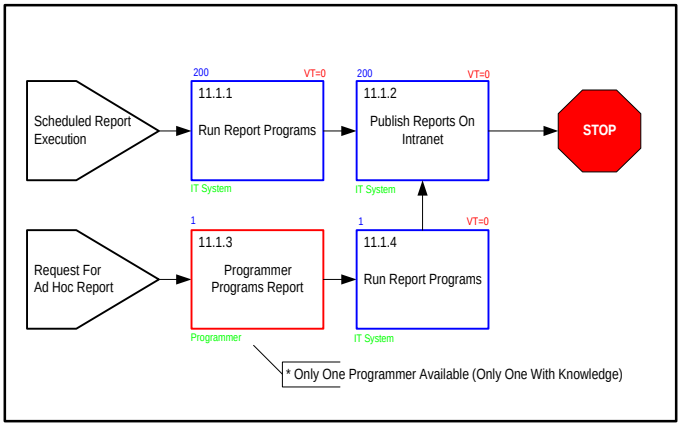

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Assumptions / Calculations
- Contractor currently charges for each report produced
- Amount charged per report is negligible compared to overall contractor agreement
- Savings will occur from renegotiated contractor agreement and increased convenience to the user.

Reduce Operating Costs
1.8 Combine FDP with TOP Process

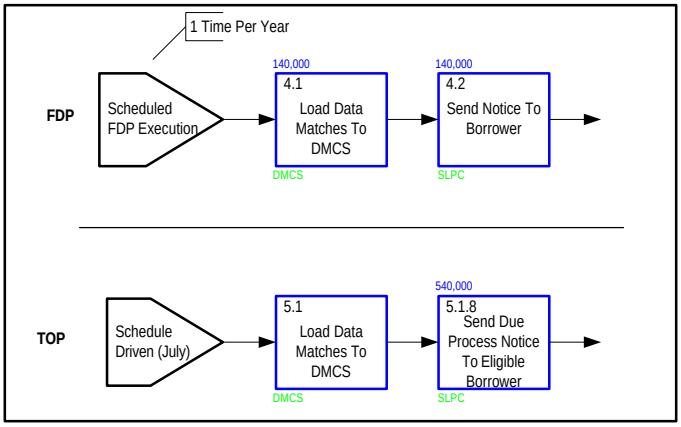
Description
Treasury FMS will soon offer the Federal Defaulter Program (FDP) along with treasury offset program. Currently, SFA's DMCS subsystem processes FDP accounts. Another DMCS system processes TOP accounts. The Dept of Education should seize this opportunity by utilizing Treasury's federal defaulter program. This will enable the elimination of the FDP subsystem within DMCS which will decreases operating costs. This will also help streamline business processes and greatly reduce data transfer between SFA and various other agencies.

Cost Driver Impacts
- Reduced operating costs by eliminating current FDP subsystem
- Increased productivity from better management of the FDP process

Difficulty of Implementation - - LOW
- New FDP process will follow existing TOP process

Operational Savings: $600,000

Process Map



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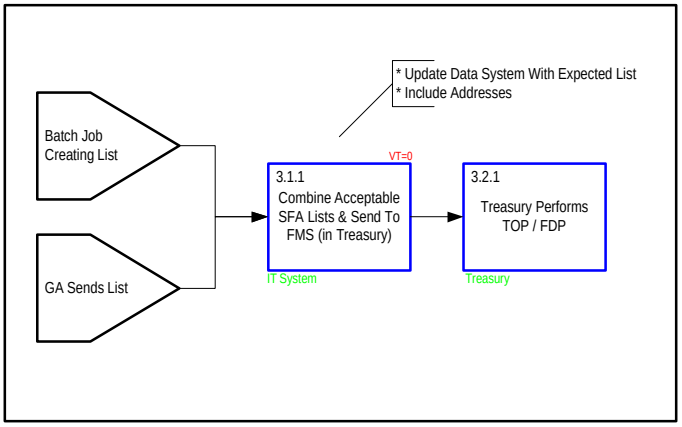

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Assumptions / Calculations
- Assume all subsystems are proportional
- FDP is one-twentieth (1/20) of the total system cost (there are 20 subsystems)
- Total system cost is $12,000,000 (Raytheon contract)
- Savings = $12,000,000 / 20 = $600,000

Increase Collections Effectiveness
2.1 Implement New Skip Tracing Technologies

Description
Locating defaulted borrowers is consistently the biggest challenge for debt collections. There are several very powerful tools available today for performing skip tracing in the marketplace. For defaulted loans, there are two potential implementation options:

Option 1: SFA Encourages PCAs to Implement New Technologies
Currently, the best PCAs already seek out and utilize the best-in-class skip tracing technologies. All other PCAs should be encouraged to use the best skip tracing technologies so their account borrowers can be located quicker. To implement without increasing operating costs, change contract between Treasury and PCA to slightly increase commission to offset PCA cost to implement best technologies.

Option 2: Implement New Technologies at SFA
Before assigning loans to Private Collection Agencies (PCAs), SFA refreshes its database periodically with more reliable borrower addresses via batch processes. This increased reliability of borrower addresses will increase the probability of finding borrowers willing to pay their defaulted loans. This will reduce the number of assignments to PCAs and commissions paid, thus increasing collections to Treasury. Also, more reliable addresses before assignment to PCAs will mean less effort for PCAs to locate borrowers. This could provide additional leverage when negotiating new PCA contracts.

Both options should result in an increased recovery rate of borrower debt due to increased ability to locate the borrower.

Cost Driver Impacts
- Increase collections due to increased ability to locate borrowers

Difficulty of Implementation - - LOW
- Purchase of New Technology services (e.g., Accurint)
- Ability to update system with new addresses

Increased Collections: $12,500,000/year

Assumptions / Calculations
- Increased collections = (number of bad addresses) * (average loan amount) * (success rate of locating new borrowers) * (probability the borrower will pay loan)
- Number of bad Addresses = 628,000 (source: DMCS ad-hoc query); criteria for bad addresses is: undeliverable mail, not in repayment, account not resolved, account greater than $25.
- Average loan amount = $2000.
- Success rate of locating new borrowers (previously not found) = 10% (anecdotal; received batch test data from Joe Webber regarding a batch skip tracing product; actual testing is still in progress).
- Probability of borrower paying loan = 10% (based on approximate ratio of borrowers paying loans to total defaulted loans)
- Assumed Gross amount paid back over the life of the loan
- Increased collections = 628,000 * $2000 * 0.1 * 0.1 = $12,560,000 → $12.5M
- Cost for using new skip tracing technology is negligible compared to expected increased revenues (e.g., cost is $0.05 per valid address returned * 628,000 bad addresses = $31,400)

Increase Collections Effectiveness
2.2 Increase Returned Check Fee

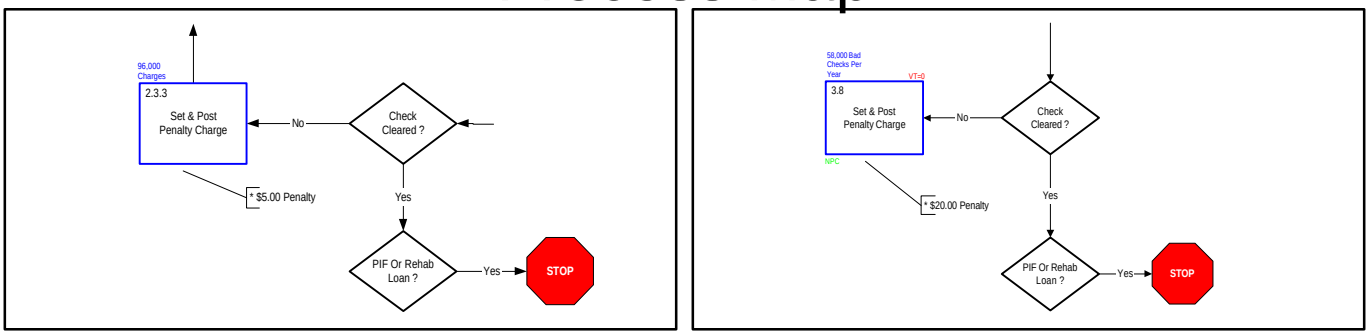
Description
Currently the returned check penalty to the borrower is $5. Approximately 8000 checks are returned on a monthly basis, which is 3.3% of all checks received by NPC. In the banking industry, the normal charge for a returned check is $25. SFA should increase their fee for bad checks up to $20. Note that increasing the returned check fee does not help SFA's goal to reduce loan principle, it merely increases debt through fees. However, a more severe penalty should increase deterrence of returned checks and reduce operating costs for processing bad checks.

Cost Driver Impacts
- Increased cash inflow to Treasury
- Decreased operational costs for bad checks
- Reduced number of incoming bad checks

Difficulty of Implementation - - LOW
- Change current policy for returned checks
- Notify borrowers of new policy

Increased Collections: $750,000/year

Process Map



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Assumptions / Calculations
- Returned check fee is $20.00
- Assumed half of bad check fees collected with next billing cycle; other half unpaid and increases the debt portfolio
- Operating costs negligible (e.g., Total NPC cost is $1.3M (from Raytheon invoice), total number of checks processed per year is 2.88 million (from NPC), all NPC activities are related to processing checks, average operational cost for all checks = (total NPC cost) / (total number of checks) = $0.46, bad checks require more manual effort, therefore their processing cost per check will be slightly higher than good checks. Operational cost per bad check could be assumed $0.50., thus operating cost = $48,000)
- Increasing penalty for bad checks will reduce the number of bad checks in the future; this savings also not included in calculations

	Bad Checks/Year	Penalty/Check	Increased Collections
As-Is	**96,000**	**$5.**	**$480,000**
To-Be	**96,000**	**$20.**	**$1,920,000**
Total			**$1,440,000**

Increase Collections Effectiveness
2.3 Provide Electronic Payment Capabilities

Description
Collections currently accepts personal checks, money orders, credit union transfers, and *QuickChecks.* Currently, 10,000 payments arrive at NPC each day with 1200 of those by QuickCheck. Customers are beginning to use new technologies to pay their bills. SFA should provide alternative payment channels, such as payroll deduction, automatic debits from checking/savings accounts, and electronic payment from credit cards. This will reduced payment processing costs by deflecting the number of manual processes (i.e., check payments) to automated, electronic methods. For those borrowers who pay electronically, bill statements could be sent electronically also, instead of paper.

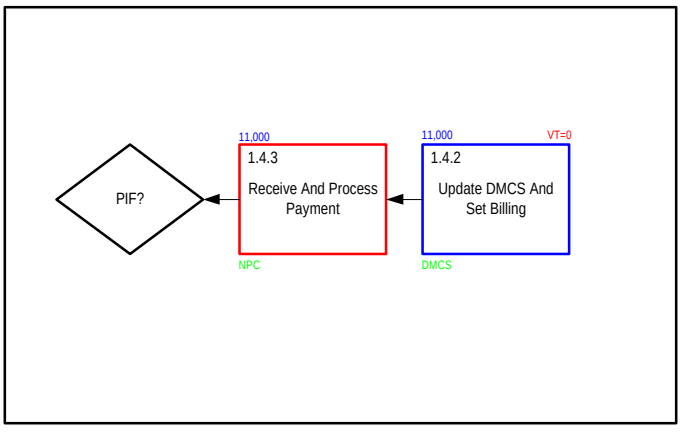
When the payment center provides these capabilities, PCAs will tend to drive borrowers to these channels. Alternative payment capabilities will get borrowers to pay immediately and set a schedule for automated payments. Also, implementing alternative payment capabilities may allow SFA to combine Atlanta and Greenville payment centers into one. Investigate possibility of Leveraging eServicing capabilities to allow defaulted borrowers to use electronic bill payment applications.

Cost Driver Impacts
- Reduced operating costs from payment processing
- Reduced operating costs from less billing letters
- Reduced operating costs from payment center consolidation
- Increased collections from more reliable payment methods

Difficulty of Implementation - - MEDIUM
- Implement new technologies
- Potentially leverage eServicing solutions
- Consistent with current SFA management vision

Operational Savings: $75,000/year

Process Map



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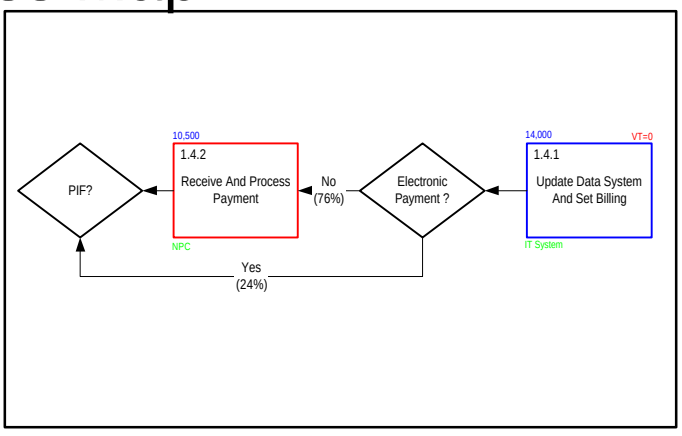

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Assumptions / Calculations
- Savings = (pct. of borrowers using electronic payment method) * (check processing cost)
- Benchmark from eServicing model shows likelihood of 12% of all non-defaulted borrowers will use electronic payment methods.
- 12% of defaulted borrowers currently use QuickCheck method of payment
- Assume 6% of all defaulted borrowers will participate in new electronic payment methods
- NPC costs last year were $1,300,000
- Savings = 6% * $1,300,000 = $312,000 → $75,000
- All operational costs at NPC is related to number of checks processed

Increase Collections Effectiveness
2.4 Sell or Write-Off Bad Debt

Description
A portion of the existing debt portfolio might be sold to reputable third parties in the delinquent-debt market. This may expedite the cash flow received for old, defaulted loans. This recommendation, based on a previous SFA study, will reduce operating costs by reducing the number of bad debts to manage. Further analysis must be done, however, to determine the asset valuation of the total debt portfolio before determining which debts and how much should be sold. Debt Collections should engage their portfolio management expertise to analyze the default portfolio and recommend financial exit and collection strategies. To increase the value of the selling portfolio, Debt Collections should retain loan ownership and Federal collection tools.

Another opportunity exists with writing-off small balance loans. SFA sometimes writes off old debts less than $25. Increasing this threshold and performing write-offs more frequently will reduce the portfolio. Perform a cost/benefit analysis to determinate the criteria for age and amount by which to write-off debts. Writing-off debts which meet the criteria should occur continuously with periodic review of the write-off policy.

Cost Driver Impacts
- Reduced operating costs by reducing collections costs
- Increased operating costs due to portfolio analysis and management

Difficulty of Implementation - - LOW
- Develop policy to allow sales and write-offs
- Implement portfolio sales channel

Increased Collections: TBD

Assumptions / Calculations
- small debts are not written-off until a specified amount of inactive time elapses (e.g., 10 years)
- legitimate efforts to collect still occur during inactive period
- PCAs incur majority of operating costs attempting to collect from defaulted borrowers
- Increased collections to Treasury equal to number of loans sold off times the average sales price of each loan
- More analysis should be done to determine the fair market value for selling defaulted loans
- More analysis should be done to determine portion of Collections portfolio to sell.

Increase Collections Effectiveness
2.5 Add New Collections Management Capabilities

Description
The DMCS System Replacement Business Case recommended a modern debt management system to replace the current system. The new system shall enable the the following business capabilities:

- Optimize use of Collection Agencies through intelligent collection agency assignment
- Manage collection agencies' performance through an automated performance monitoring system
- Automate workflow and eliminate manual processes
- Enable effective collections strategies through repayment predictive model and advanced decision engines and rule
- Enhance systems architecture compatibility with other systems, e.g. Loan Origination and Loan Servicing Systems
- Enhance data transfer capabilities from magnetic tape to electronic file transfer
- Automate the current data matching programs with various Federal Agencies databases
- Provide more user-friendly graphic interface to the user community
- Provide management with decision support tools to conduct portfolio management and flexible ad-hoc reporting
- Provide mechanisms to analyze customer interactions and generate alternative collections strategies based on customer response and needs

Cost Driver Impacts
- Reduced operating costs
- Increased collections
- Increased employee satisfaction
- Increased customer (borrower) satisfaction

Difficulty of Implementation - - HIGH
- Organizational re-engineering
- Technology Implementation
- Contract modification with trading partners
- Advertisement for increased awareness

Operational Savings: TBD
Increased Collections: TBD

Assumptions / Calculations
- Trading partners are capable of interfacing with data matching programs (i.e., electronic file transfer)
- Percentage of customers become aware of and use alternative collection strategies
- Collections agencies benefit from better assignment of debt collections

Increase Collections Effectiveness
2.6 Define Organizational Processes

Description

SFA manages and operates as a traditional organization where people are grouped by functional departments. SFA functions encourage organizational handoffs which create large amounts of non-value added time. Also, SFA's processes are fragmented, which is common with functional organizations because processes, which transcend the organization, tend to be invisible. The root cause usually lies with with the process, not the people. Debt Collections should redesign their processes so they are event-driven rather than schedule-driven. For example, transfers to PCAs occur bi-monthly when a scheduled batch job executes. Much of the cause for scheduled-driven activities lies with the system, DMCS and its performance capabilities. In the future, transfers to PCAs should occur immediately after assignment, not based upon a schedule.

The first step for Debt Collections to achieve Process Excellence is to identify, document and communicate the organization's processes. Process thinking means focusing on outcomes rather than tasks – on producing " a result of value to the customer." There may be many innovative approaches to producing value. Value can be defined as what the customer cares about and will pay for and it goes beyond traditional financial measures such as revenue, profit, ROI, and EVA.

Next, Debt Collections should develop an enabling environment, whereby processes are actively owned and managed, measured, and supported by technology. Debt Collections should assign process owners, whose roles are:

- Innovator - designing the process and measuring performance
- Coach - enable process performers by acting as resource, not supervisor
- Advocate - represents the process in the organization

In summary, Debt Collections should group its interrelated activities together so they create value for the customer (e.g., PCA, borrower, etc.). Debt Collections should reintegrate its tasks, rather than fragment work into ever-smaller and simpler tasks.

Cost Driver Impacts

- Increased employee satisfaction from better visibility to processes
- Increased customer satisfaction from customer focus by organization
- Reduced operating costs from continuous process improvement
- Increased collections from continuous process improvement

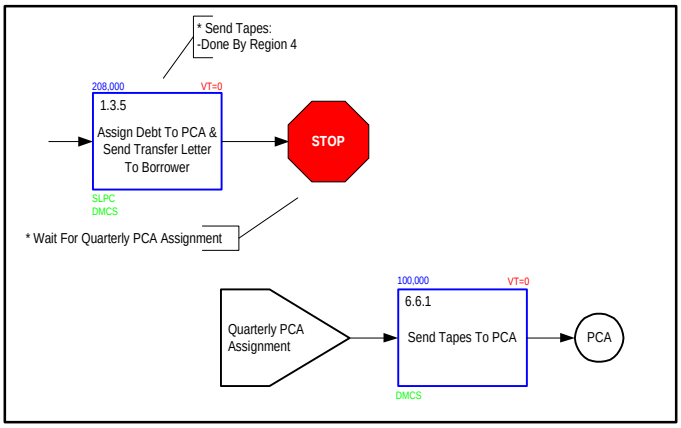
Difficulty of Implementation - - HIGH

- Requires organizational transformation
- process reengineering

Operational Savings: TBD
Increased Collections: TBD

Increase Collections Effectiveness
2.6 Define Organizational Processes (continued)

Process Map



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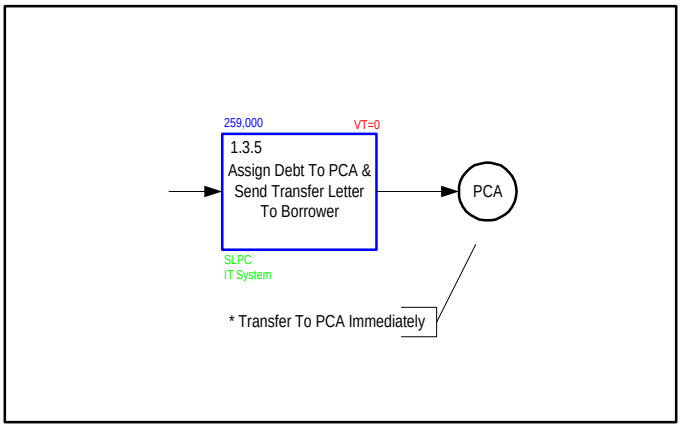

TO BE

Assumptions / Calculations

- Goal is to increase VT/ET (value added time / elapsed time) and eliminate waste
- Value-Added Work: designing, assembling or shipping a product
- Non-Value Added Work: reporting, checking, supervising, controlling, or reviewing
- Waste: rework due to errors, redundant activities, or producing reports which no one reads
- Typical organization VT/ET is less than 0.05 (Michael Hammer, “Reengineering the Organization”)
- Schedule driven processes increase elapsed time, thus reducing VT/ET

Increase Collections Effectiveness
2.7 Formalize Collection Employee Incentives Programs

Description
Since 1997, DCS compensates their Private Collection Agencies (PCAs) on a performance based contract with bonus incentives built-in. These incentives are based on four performance measures (commissions, AWG, litigation preparation, and administrative resolutions) and the top six performing agencies of regular collection dollars.

SFA should create a multi-tiered incentive approach to encourage teamwork within all groups. SFA should reward staff members whose contractors (i.e., PCAs, PIC, etc.) achieve their established goals. This incentive program will align with the business strategies, objectives and culture of Collections.

Cost Driver Impacts
- Improved employee satisfaction and performance
- Improved understanding of Collections process
- Improved customer satisfaction, service and collection capability

Difficulty of Implementation - - LOW
- Rewards only, no penalties for no improvements
- Union may see as unfair treatment

Operational Savings: TBD
Increased Collections: TBD

Assumptions / Calculations
- Ability to provide financial rewards
- SFA employees value proposed rewards
- Rewards will be aligned with business goals

Acronym List

Acronym	Meaning
AGI	Adjusted Gross Income
ALJ	Administrative Law Judge
ATB	Ability to Benefit
AWG	Administrative Wage Garnishment
CSC	Computer Sciences Corporation
DMCS	Debt Management and Collections System
DOD	Department of Defense
DOJ	Department of Justice
ECMC	Educational Credit Management Corporation
ED	Department of Education
FDP	Federal Defaulters Program
FDSL	Federal Direct Student Loan
FFEL	Federal Family Education Loan
FISL	Federally Insured Student Loan
GA	Guaranty Agency
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
ICRP	Income Contingent Repayment Plan
IRS	Internal Revenue Service
LSB	Loan Servicing Branch
LTD	Long Term Disability
NDNH	National Direct New Hire (database)
NDSL	National Defense Student Loan Program (Federal Perkins Loan)
NPC	National Payment Center (where loan payments are sent)
OGC	Office of General Counsel
PBO	Performance Based Organization
PCA	Private Collection Agency
PIC	Public Inquiry Contractor
PIF	Paid In Full
SCB	Systems and Contracts Branch
SEOG	Supplemental Educational Opportunity Grant
SLPC	Student Loan Processing Center (where loan documents are stored)
TOP	Treasury Offset Program
USPS	United States Postal Service
VDC	Virtual Data Center
FMS	Financial Management System
SFA	Student Financial Assistance